

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Bay County Road Commission	County Bay County
Fiscal Year End December 31, 2007	Opinion Date May 23, 2008	Date Audit Report Submitted to State May 30, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

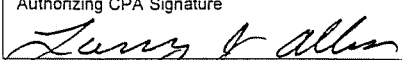
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Internal Control	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple P.C.		Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue		City Port Huron	State Zip MI 48060
Authorizing CPA Signature 	Printed Name Larry J. Allen		License Number 1101008117

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2007

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Bay County
Kawkawlin, Michigan

We have audited the accompanying basic financial statements of the Bay County Road Commission, a component unit of Bay County, Michigan, as of December 31, 2007, and for the year then ended. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Bay County, Michigan, as of December 31, 2007, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated May 23, 2008, on our consideration of the Road Commission of Bay County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting over compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Bay County Road Commission. The schedules on pages 24-26 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Bay County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

May 23, 2008

BAY COUNTY ROAD COMMISSION

A Component Unit of Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Bay County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Bay County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

Unlike the government-wide financial statements, governmental financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the year. Such information may be useful in evaluating the Road Commission's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near-term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Bay County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11-23 of this report.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$87,017,962 at the end of the fiscal year.

The net assets are separated into two major components, invested in capital assets net of related debt of \$84,541,056 or 97% of net assets and unrestricted net assets of \$2,476,906 or 3% of net assets. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Commission used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources need to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all categories (invested in capital assets, net of related debt, and unrestricted net assets).

The table below shows a comparison of the net assets as of December 31, 2007 and 2006 in a condensed format.

	<u>2007</u>	<u>2006</u>
Assets		
Current and other unrestricted assets	\$ 4,434,357	\$ 3,267,287
Capital Assets	<u>84,541,056</u>	<u>85,286,163</u>
Total Assets	<u>88,975,413</u>	<u>88,553,450</u>
Liabilities		
Long-term liabilities outstanding	807,300	1,007,949
Other liabilities	<u>1,150,151</u>	<u>1,644,224</u>
Total Liabilities	<u>1,957,451</u>	<u>2,652,173</u>
Net Assets:		
Invested in capital assets	84,541,056	85,286,163
Unrestricted	<u>2,476,906</u>	<u>615,114</u>
Total net assets	<u>\$ 87,017,962</u>	<u>\$ 85,901,277</u>

Statement of Activities

The following schedule compares the revenues and expenses for the current and previous fiscal years.

	<u>2007</u>	<u>2006</u>
Revenues		
Federal sources	\$ 62,245	\$ 965,510
State sources	7,999,814	8,070,383
Local sources	2,265,919	2,169,128
Charges for services	1,827,398	1,362,352
Other	<u>169,082</u>	<u>217,548</u>
Total Revenues	<u>12,324,458</u>	<u>12,784,921</u>
Expenses		
Maintenance	7,779,172	6,635,974
Administrative	491,447	1,055,427
Equipment (Net)	(879,838)	(478,258)
Depreciation	3,804,469	3,967,115
Debt Service	<u>12,523</u>	<u>9,620</u>
Total Expenses	<u>11,207,773</u>	<u>11,189,878</u>
Change in Net Assets	1,116,685	1,595,043
Net Assets – Beginning of Year	<u>85,901,277</u>	<u>84,306,234</u>
Net Assets – End of Year	<u>\$ 87,017,962</u>	<u>\$ 85,901,277</u>

As shown in the preceding schedule comparing 2007 and 2006 Statement of Activities amounts, the total revenue decreased \$460,463 or 4%. A large portion of the change between the years resulted from an increase of \$465,046 in charges for services and a decrease in federal sources of \$903,265. The increase in charges for services was due to an increase in state trunkline maintenance. Also, the volume of federal projects was down.

The balance of the revenue sources remained relatively constant between 2007 and 2006. Of the state source revenue, approximately \$7,999,814 and \$8,070,383 was received in 2007 and 2006, respectively from Michigan Transportation Funds which represents approximately 65% of the total revenue received in 2007 and 64% of total revenue received in 2006.

Total expenses increased from 2006 to 2007 by \$17,895 or less than 1%. The increase was related to an increase in maintenance costs of \$1,143,198 offset by decreases in other expense categories.

Government Funds Financial Analysis

As noted earlier, the focus of the fund (modified accrual) financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$2,910,825 an increase of \$1,847,957 from the prior year. Approximately 88% or \$2,567,719 of the fund balance constitutes unreserved fund balance, which is available for spending at the government's discretion. \$355,024 has been designated for adjustments to health care premiums. The remainder of the fund balance is reserved to indicate that the amount is not available for new spending because \$343,106 has been prepaid.

BUDGETARY HIGHLIGHTS

The total difference between the original budget and the final amended budget expenditures was a difference in appropriations of \$250,500 or approximately a 2.4% increase of original budget expenditures.

The variance between the final budget and the actual amounts for expenditures was an amount of \$71,949 or approximately .67% of the final budget expenditures.

Detail of the original budget, final amended budget and actual amounts may be seen on page 10 of the basic financial statements.

CAPITAL ASSETS

Capital Assets – As of year end, the Road Commission had \$85,541,056 invested in capital assets (net of accumulated depreciation) as reflected in the following schedule, representing a decrease of \$745,107 from the 2006 balance.

	<u>2007</u>	<u>2006</u>
Land	\$ 501,981	\$ 496,086
Land improvements and right-of-ways	44,006,812	42,906,598
Buildings & Improvements	1,025,481	1,074,105
Equipment	1,511,045	2,132,405
Depletable assets	38,714	38,770
Infrastructure	<u>37,457,023</u>	<u>38,638,199</u>
Total Capital Assets	<u>\$ 84,541,056</u>	<u>\$ 85,286,163</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Road Commission Michigan Transportation revenue continues to decline. Long-term state fiscal crises is affecting local township's demands for maintenance projects. It is anticipated that there will be a decrease in Michigan Transportation Fund revenue in 2008 of approximately \$471,000, which comes after a reduction in 2007 from 2006 of approximately \$12,500, which was less than originally anticipated.

The Road Commission has budgeted for Preservation-Structured Improvement projects to increase; however, routine maintenance expenditures are expected to decrease. It is anticipated that transfers from primary and county local road fund to local roads funds will be required in 2008 to offset an anticipated fund balance deficit in local roads. An overall increase in fund balance of \$42,800 is anticipated.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Bay County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Bay County Road Commission, 2600 E. Beaver Road, Kawkawlin, Michigan 48631.

BASIC FINANCIAL STATEMENTS

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 529,827	\$ -	\$ 529,827
Investments	946,871	-	946,871
Due from other governmental units -			
State	1,512,762	-	1,512,762
Local	360,382	-	360,382
Due from primary government	5,158	-	5,158
Due from other component units	42,662	-	42,662
Accounts receivable	18,278	-	18,278
Interest receivable	2,753	-	2,753
Prepaid expenditures/expenses	343,106	82,829	425,935
Inventory	589,729	-	589,729
Capital assets, net of accumulated depreciation			
Assets being depreciated	-	40,032,263	40,032,263
Assets not being depreciated	-	44,508,793	44,508,793
Total Assets	<u>\$ 4,351,528</u>	<u>\$ 84,623,885</u>	<u>\$ 88,975,413</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 240,124	\$ -	\$ 240,124
Accrued liabilities	202,239	-	202,239
Advances and deposits	688,686	-	688,686
Deferred revenue	309,654	(309,654)	-
Noncurrent liabilities			
Due within one year	-	19,102	19,102
Due in more than one year	-	807,300	807,300
Total Liabilities	<u>1,440,703</u>	<u>516,748</u>	<u>1,957,451</u>
Fund Balance:			
Fund Balance -			
Reserved -			
Prepaid expenditures	343,106	(343,106)	-
Unreserved -			
Designated for health care	355,024	(355,024)	-
Undesignated	2,212,695	(2,212,695)	-
Total Fund Balance	<u>2,910,825</u>	<u>(2,910,825)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u><u>\$ 4,351,528</u></u>		
Net Assets:			
Invested in capital assets		84,541,056	84,541,056
Unrestricted		2,476,906	2,476,906
Total Net Assets		<u><u>\$ 87,017,962</u></u>	<u><u>\$ 87,017,962</u></u>

See Notes to Financial Statements

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 41,512	\$ -	\$ 41,512
Intergovernmental -			
Federal sources	62,245	-	62,245
State sources	7,999,814	-	7,999,814
Local sources	2,430,369	(164,450)	2,265,919
Charges for services	1,827,398	-	1,827,398
Interest and rents	32,770	-	32,770
Other	94,800	-	94,800
Total Revenues	<u>12,488,908</u>	<u>(164,450)</u>	<u>12,324,458</u>
Expenditures/Expenses:			
Current -			
Local construction/capacity improvements	804,576	(804,576)	-
Primary preservation - structural improvements	817,568	(817,568)	-
Local preservation - structural improvements	1,155,309	(1,155,309)	-
Primary maintenance	2,405,237	8,349	2,413,586
Local maintenance	3,510,345	8,349	3,518,694
State maintenance	1,846,892	-	1,846,892
Administrative	771,982	(280,535)	491,447
Equipment	2,524,872	(860,503)	1,664,369
Less equipment rental charged			
other activities	(2,544,207)	-	(2,544,207)
Depreciation	-	3,804,469	3,804,469
Capital outlay	282,942	(282,942)	-
Less depreciation credit and retirements	(947,088)	947,088	-
Interest	12,523	-	12,523
Total Expenditures/Expenses	<u>10,640,951</u>	<u>566,822</u>	<u>11,207,773</u>
Revenues over (under) expenditures/expenses	1,847,957	(731,272)	1,116,685
Fund Balance/Net Assets at January 1, 2007	<u>1,062,868</u>	<u>84,838,409</u>	<u>85,901,277</u>
Fund Balance/Net Assets at December 31, 2007	<u><u>\$ 2,910,825</u></u>	<u><u>\$ 84,107,137</u></u>	<u><u>\$ 87,017,962</u></u>

See Notes to Financial Statements

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Original Budget	Final Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 30,000	\$ 35,000	\$ 41,512	\$ 6,512
Intergovernmental -				
Federal sources	880,000	50,000	62,245	12,245
State sources	7,280,000	8,005,000	7,999,814	(5,186)
Local sources	1,500,000	1,700,000	2,430,369	730,369
Charges for services	1,605,000	1,755,000	1,827,398	72,398
Interest and rents	60,000	30,000	32,770	2,770
Other	130,000	130,000	94,800	(35,200)
Total revenues	<u>11,485,000</u>	<u>11,705,000</u>	<u>12,488,908</u>	<u>783,908</u>
Expenditures:				
Current -				
Local construction/capacity improvement	400,000	725,000	804,576	(79,576)
Primary preservation - structural improvement	2,682,900	1,132,900	817,568	315,332
Local preservation - structural improvement	1,512,000	1,370,000	1,155,309	214,691
Primary routine maintenance	1,900,000	2,600,000	2,405,237	194,763
Local routine maintenance	2,007,500	2,750,000	3,510,345	(760,345)
State trunkline maintenance	1,500,000	1,600,000	1,699,518	(99,518)
State trunkline non maintenance	100,000	150,000	147,374	2,626
Administrative- net	750,000	750,000	771,982	(21,982)
Equipment - net	10,000	10,000	(19,335)	29,335
Capital Outlay - net	(400,000)	(400,000)	(664,146)	264,146
Debt Service	-	25,000	12,523	12,477
Total Expenditures	<u>10,462,400</u>	<u>10,712,900</u>	<u>10,640,951</u>	<u>71,949</u>
Excess of revenues under expenditures	1,022,600	992,100	1,847,957	855,857
Fund Balance at January 1, 2007	<u>1,062,868</u>	<u>1,062,868</u>	<u>1,062,868</u>	<u>-</u>
Fund Balance at December 31, 2007	<u><u>\$ 2,085,468</u></u>	<u><u>\$ 2,054,968</u></u>	<u><u>\$ 2,910,825</u></u>	<u><u>\$ 855,857</u></u>

NOTES TO FINANCIAL STATEMENTS

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Bay County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's basic financial statements.

A. Description of Road Commission Operations –

The Bay County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Bay, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, Federal Financial Assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides services to fourteen (14) Townships in Bay County and maintains over 1,200 miles of state, local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash and Cash Equivalents - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents include certificates of deposit, commercial paper and investment trust funds and are recorded at cost, which approximates fair value. The pooled investment funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories – Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the lower of average cost or market.

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure, are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with an initial, individual cost of \$2,000 or more and an estimated useful life in excess of 2 years. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of a minimum cost. Capital assets are recorded at historical cost or estimated if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals, which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Accrued Vacation and Sick Pay – In accordance with contracts negotiated with the various employee groups, individual employees have vested right upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contract. All amounts vested are accrued in the government-wide statements (statement of net assets).

Deferred Revenues – In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Advances From The State of Michigan – The State of Michigan advances funds on a State maintenance agreement it has with the Bay County Road Commission for specified maintenance, which the Road Commission will perform during the year and for equipment purchased and used in performance of the specified maintenance. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

Equipment Rentals – The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Fund Equity – Designation of fund balance represents tentative management plans that are subject to change.

Estimates – In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A.** Explanation of differences between the governmental fund balance sheet and the government-wide statement of net assets (Page 8).

Fund Balance – governmental fund	\$ 2,910,825
Capital assets used in the governmental fund statements that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	124,246,026
Deduct – accumulated depreciation	(39,704,970)

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - (cont'd):

Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	\$ (826,402)
Prepaid expenses not reported in the governmental fund statements	82,829
Revenues that have been deferred in the governmental fund statements because they are not "available"	<u>309,654</u>
Net Assets	<u>\$ 87,017,962</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 9).

Excess of revenues under expenditures – governmental fund statement	\$ 1,847,957
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay and infrastructure	3,060,395
Deduct - depreciation	(3,804,469)
- retirements	(1,033)
Revenues deferred in the governmental fund statements because they do not provide current financial resources that are reported in the government-wide Statement of Activities	(164,450)
Prepaid expense adjustment not reported in the governmental fund statements	(3,262)
Accrued vacation and sick time and worker's compensation expenses not reported in the governmental fund statements because they will not be paid with current financial resources	<u>181,547</u>
Change in Net Assets	<u>\$ 1,116,685</u>

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Engineer-Manager of the Road Commission prepares from data submitted by the administrative staff a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them. The budget is approved at the activity level by the Board of County Road Commissioners.

The budget for the General Operating Fund is adopted on the modified accrual basis, which is consistent with accounting principles generally accepted in the United States of America.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioner's Resolution. After the budget is adopted, the Engineer-Manager is authorized to transfer amounts between items of the adopted budget at year end to reflect the effects of the distribution of the distributive account. All amendments to the budget must have direct approval of the Board of County Road Commissioners.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. During the year ended December 31, 2007, the Road Commission had over-expenditures as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2007, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 200
Deposits with Financial Institutions	
Imprest Checking	16,610
Checking maintained by County Treasurer	19,445
Investments	
Government Investment Trusts	493,572
Investments maintained by County Treasurer	<u>946,871</u>
	<u>\$ 1,476,698</u>

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Bay County Treasurer's Office, and in order to make disbursements, the Bay County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

Custodial Credit Risk – Deposits – is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. Michigan Public Acts authorize Road Commissions to deposit into the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The Road Commission's investment policy does not have a custodial credit risk requirement.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits consist of demand accounts. At December 31, 2007, the carrying amount of the Road Commission's deposits is \$36,055 and the bank balance is \$36,055. As a component unit of Bay County, all Road Commission cash is part of the accounts maintained by Bay County, at bank institutes insured by federal deposit insurance. However, it cannot be determined to what extent the FDIC insurance applies to the Road Commission.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk leve as depositories.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):

Investments –

As of December 31, 2007, the County, on behalf of the Road Commission, had invested in external investment pools as sweep accounts for the vendor and payroll checking and directly into certificates of deposits, government obligations, commercial paper and money market funds. Information regarding these investments and risk associated with these investments may be obtained from the Bay County Financial Report for the year ended December 31, 2007.

The investment trusts (sweep accounts) have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the County Treasurer, on behalf of the Road Commission, may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other government units as of December 31, 2007 consists of the following:

State –	
Michigan Transportation Funds	\$ 1,194,676
Trunkline Maintenance	280,545
Transportation Department – Other	<u>37,541</u>
	<u>1,512,762</u>
Local –	
Townships	<u>360,382</u>
	<u>\$ 1,873,144</u>

The governmental fund statements report deferred revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period. Both the government-wide and the governmental fund statements defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current year deferred revenue in the governmental fund consisted of Township road agreement receivables in the amount of \$309,654 that are considered to be unavailable at December 31, 2007.

NOTE 6 - INVENTORIES:

The inventory balance of \$589,729 at December 31, 2007 consisted of \$339,796 of road materials and \$249,933 of equipment parts and materials.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance December 31, <u>2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Removals</u>	Balance December 31, <u>2007</u>
Capital Assets, not being depreciated –					
Land	\$ 496,086	\$ 5,895	\$ -	\$ -	\$ 501,981
Land Improvements	42,556,937	1,100,214	-	-	43,657,151
Right of Ways	<u>349,661</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>349,661</u>
Total Capital Assets, not being depreciated	<u>43,402,684</u>	<u>1,106,109</u>	<u>-</u>	<u>-</u>	<u>44,508,793</u>
Capital Assets, being depreciated –					
Buildings and Improvements	2,595,368	17,487	-	-	2,612,855
Road Equipment	9,843,271	233,751	99,376	-	9,977,646
Shop Equipment	144,074	9,751	-	-	153,825
Office Equipment	181,765	2,105	-	-	183,870
Engineering Equipment	139,283	5,532	-	-	144,815
Yard and Storage	1,330,389	8,421	-	-	1,338,810
Infrastructure -					
Roads	46,733,543	1,650,320	-	(1,958,364)	46,425,499
Bridges	18,525,874	26,919	-	-	18,552,793
Traffic Signals	294,083	-	-	-	294,083
Depletable assets	<u>53,037</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,037</u>
	<u>79,840,687</u>	<u>1,954,286</u>	<u>99,376</u>	<u>(1,958,364)</u>	<u>79,737,233</u>
Less – accumulated depreciation for –					
Buildings and Improvements	1,521,263	66,111	-	-	1,587,374
Road Equipment	8,429,106	796,193	98,343	-	9,126,956
Shop Equipment	133,719	11,073	-	-	144,792
Office Equipment	132,614	8,165	-	-	140,779
Engineering Equipment	82,905	7,853	-	-	90,758
Yard and Storage	728,032	56,604	-	-	784,636
Infrastructure –					
Roads	19,750,520	2,504,940	-	(1,958,364)	20,297,096
Bridges	6,913,733	347,822	-	-	7,261,555
Traffic Signals	251,049	5,652	-	-	256,701
Depletable Assets	<u>14,267</u>	<u>56</u>	<u>-</u>	<u>-</u>	<u>14,323</u>
	<u>37,957,208</u>	<u>3,804,469</u>	<u>98,343</u>	<u>(1,958,364)</u>	<u>39,704,970</u>
Total Capital Assets, being depreciated, net	<u>41,883,479</u>	<u>(1,850,183)</u>	<u>1,033</u>	<u>-</u>	<u>40,032,263</u>
Governmental activity capital assets, net	<u>\$ 85,286,163</u>	<u>\$(744,074)</u>	<u>\$(1,033)</u>	<u>\$ -</u>	<u>\$84,541,056</u>

Total depreciation for the year ended December 31, 2007 was \$3,804,469.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 8 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2007, the Road Commission of Bay County had less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$62,245 represent the Department of Transportation Federal Highway grant money expended on public road improvement projects, which were administered by the Michigan Department of Transportation, however are required to be reported by the Road Commission.

NOTE 9 - ADVANCES AND DEPOSITS:

Advances and deposits of \$688,686 at December 31, 2007, represent money advanced by the State of Michigan under the maintenance contract the Road Commission has with the State, money advanced by the State for equipment purchases, and deposits from contractors and individuals for various projects. Both State advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled. The following is a summary of the balance by source and use:

State -	
Trunkline maintenance	\$ 126,216
Equipment	<u>400,821</u>
	<u>527,037</u>
Local -	
Contractors and Individuals -	
Performance deposits	41,491
Department of Water and Sewer	
Health Care deposit	<u>120,158</u>
	161,649
	<u>\$ 688,686</u>

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 10 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2007:

<u>Year</u>	<u>Balance</u> <u>January 1,</u> <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31,</u> <u>2007</u>	<u>Due</u> <u>Within</u> <u>One</u>
Accrued sick and vacation	\$ 753,700	\$ 72,702	\$ -	\$ 826,402	\$ 19,102
Accrued claims liability	<u>254,249</u>	<u>-</u>	<u>254,249</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,007,949</u>	<u>\$ 72,702</u>	<u>\$ 254,249</u>	<u>\$ 826,402</u>	<u>\$ 19,102</u>

Accrued Sick and Vacation

Employees are granted vacation and sick leave in varying amounts based on the Commission's administrative policy and contract with union employees. Vacation time is credited annually to each employee, but cannot be accumulated for more than one year without Board approval, with the exception that all employees can carry over five days without Board approval. Administrative employees and union employees are limited to 1,200 hours sick leave accumulation. At this point, the employees are allowed to accumulate 96 hours of sick leave reserve, of which the unused portion is paid by the Road Commission at the beginning of the following year. Upon retirement, permanent disability or leaving the employment of the Road Commission, all union employees are paid 85 percent of their accumulated sick leave. Administrative employees are paid 85 percent of their accumulated sick leave upon leaving the employment of the Road Commission. The dollar amount of these vested rights, which has been accrued on the financial statements amounted to approximately \$640,830 for sick leave and \$185,572 for vacation at December 31, 2007.

NOTE 11 - EMPLOYEE PENSION:

Plan Description -

The Bay County Road Commission, as a component unit of Bay County, participates in the Bay County Retirement System. The Retirement system is a single employer, defined benefit pension plan, which was established by County ordinance to provide retirement and pension benefits for substantially all employees of Bay County. The benefit provisions are governed by Michigan Public Act of 1984, as amended.

The County issues a publicly available Annual Financial Report that includes financial statements for the plan. That report may be obtained from Bay County by writing to the Bay County Employees Retirement System, Bay County Building, 515 Center Avenue – Suite 706, Bay City, MI 48708-6128.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 11 - EMPLOYEE PENSION – (cont'd):

Funding Policy -

The County's policy is to fund normal costs which are based on actuarially determined rates, expressed as percentages of annual covered payroll, and which are sufficient to accumulate assets to pay benefits when due. The provisions of the Plan requires the County to contribute at an actuarially determined rate. The current rate for the County and Road Commission employees is 0% of annual covered payroll. Plan members contribute at a rate of 4% of their annual covered salary. The County pays the plan member contributions for all employee groups. The Plan benefit provisions and contribution requirements of plan members and the County are established and may be amended by the Board of Commissioners in accordance with County policies, union contracts, and plan provisions.

Annual Pension Costs

During the year ended December 31, 2007, the County's annual pension cost of \$0 was equal to the County's required and actual contributions. The Road commission paid plan member contributions of \$344,161 for the year ended December 31, 2007.

The required contribution rate was determined as part of the December 31, 2006 actuarial valuation using the individual entry age normal cost method. The actuarial assumption included (a) 7.5% net investment rate of return, and (b) project salary increases of 4% pay inflation plus merit and longevity. There are no projected cost of living adjustments. The actuarial value was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. The Bay County unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization periods are 30 years for groups that are underfunded and 10 years for groups that are over funded. There is no unfunded accrued liability for the Road Commission.

NOTE 12 - POSTEMPLOYMENT:

Three-Year Trend Information

Fiscal Year Ending	Road Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
December 31, 2005	\$ -	100 %	\$ -
December 31, 2006	-	100	-
December 31, 2007	-	100	-

In addition to the pension benefits described in Note 11, the Bay County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service or age 60 with 8 years of service.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 12 - POSTEMPLOYMENT - (cont'd):

During 2002, the Road Commission started participation in the Bay County Public Employee Health Care Fund where contributions are made annually to accumulate an amount to fund postemployment benefits (health care). The Road Commission contributed \$0 to the fund for the year ended December 31, 2007. The Road Commission also recognizes expenditures paid for postemployment health care benefits on a pay-as-you-go basis. For the year ended December 31, 2007 these health care costs amounted to approximately \$710,138 with 78 eligible participants.

NOTE 13 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Bay County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also, as part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State, cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 14 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Bay County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self Insurance Fund for workers' compensation insurance. The Fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The Fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 14 - RISK MANAGEMENT - (cont'd):

The Road Commission is self-insured for health care benefits. The administrative services for the self-insured program are performed by the health insurance company. The Road Commission makes monthly payments, based on estimated claims and a stop-loss provision, which are adjusted quarterly.

The Road Commission has estimated accrued health care claims in excess of the last quarter payments, including an estimate for claims incurred but not reported (IBNR), of \$72,000 at December 31, 2007.

NOTE 15 - EQUIPMENT EXPENDITURE/EXPENSE NET BALANCE:

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure/expense credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The net balance for the year ended December 31, 2007 is as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment –		
Direct	\$ 1,393,401	\$ 597,208
Indirect	767,574	703,264
Operating	<u>363,897</u>	<u>363,897</u>
	2,524,872	1,664,369
Less-equipment rental	(<u>2,544,207</u>)	(<u>2,544,207</u>)
	<u><u>\$ (19,335)</u></u>	<u><u>\$ (879,838)</u></u>

NOTE 16 - CAPITAL OUTLAY EXPENDITURES NET BALANCE:

On the governmental fund financial statements, the Road Commission reports a depreciation credit as an offset to capital outlay as a result of charging depreciation to various expenditure accounts as explained in Note 1. Retirements are also reported as a credit against capital outlay. The balance of \$(664,146) is the result of the amount of depreciation and depletion being subtracted from capital outlay expenditures for the year ended December 31, 2007 as follows:

Capital Outlay –	
Land improvements, building and equipment	\$ 282,942
Less - depreciation/depletion	(946,055)
- retirements	<u>(1,033)</u>
	<u><u>\$ (664,146)</u></u>

SUPPLEMENTARY INFORMATION

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

DETAIL SCHEDULE OF REVENUES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Revenues:		
Permits	\$ 41,512	\$ 36,303
Federal Sources -		
Critical bridge	2,847	-
Surface transportation program (STP)	49,471	965,510
Other	9,927	-
	<u>62,245</u>	<u>965,510</u>
State Sources -		
Michigan Transportation Funds - Act 51 -		
Engineering	10,000	10,000
Urban road	1,227,919	1,235,058
Allocation	6,443,144	6,448,513
State critical bridge	-	43,026
Federal Aid Funds Sold to State	318,751	333,786
	<u>7,999,814</u>	<u>8,070,383</u>
Local Sources -		
Township contributions	1,713,369	1,737,801
Other contributions	717,000	506,310
	<u>2,430,369</u>	<u>2,244,111</u>
Charges for Services -		
State trunkline maintenance	1,664,549	1,121,409
State trunkline nonmaintenance	147,375	230,081
Salvage sales	9,025	5,174
Other inspection fees	6,449	5,688
	<u>1,827,398</u>	<u>1,362,352</u>
Interest and rent	<u>32,770</u>	<u>39,757</u>
Other -		
Sundry refunds	51,890	1,255
Gain on equipment disposal	39,317	124,116
Other	3,593	16,117
	<u>94,800</u>	<u>141,488</u>
Total Revenues	<u><u>\$ 12,488,908</u></u>	<u><u>\$ 12,859,904</u></u>

BAY COUNTY ROAD COMMISSION
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DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Expenditures:		
Construction/ Capacity Improvements -		
Local roads and structures	\$ 804,576	\$ 557,231
Preservation - Structural Improvements		
Primary roads and structures	817,568	4,014,036
Local roads and structures	1,155,309	1,723,114
	<u>1,972,877</u>	<u>5,737,150</u>
Maintenance -		
Primary roads and structures,		
winter and traffic control	2,405,237	2,213,209
Local roads and structures,		
winter and traffic control	3,510,345	3,220,557
	<u>5,915,582</u>	<u>5,433,766</u>
State Maintenance -		
State Trunkline maintenance	1,699,518	1,121,411
State Trunkline nonmaintenance	147,374	230,081
	<u>1,846,892</u>	<u>1,351,492</u>
Equipment -		
Direct	1,393,401	1,658,038
Indirect	767,574	967,822
Operating	363,897	283,497
Less - equipment rental	(2,544,207)	(2,221,640)
	<u>(19,335)</u>	<u>687,717</u>
Administrative -		
Administration	970,431	984,665
Less - overhead	(163,399)	(116,418)
- handling charges	(34,282)	(20,609)
- purchase discounts	(768)	(1,873)
	<u>771,982</u>	<u>845,765</u>
Capital Outlay -		
Land improvements, building		
and equipment	282,942	899,974
Less - depreciation/depletion	(946,055)	(1,280,727)
- retirements	(1,033)	-
	<u>(664,146)</u>	<u>(380,753)</u>
Debt Service	<u>12,523</u>	<u>9,620</u>
Total Expenditures	<u>\$ 10,640,951</u>	<u>\$ 14,241,988</u>

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Primary</u>	<u>Local</u>	<u>County</u>	<u>Total</u>
Revenues:				
Permits	\$ 9,789	\$ 10,725	\$ 20,998	\$ 41,512
Intergovernmental -				
Federal sources	59,398	2,847	-	62,245
State sources	5,881,577	2,118,237	-	7,999,814
Local sources	-	2,430,369	-	2,430,369
Charges for services	-	6,449	1,820,949	1,827,398
Interest and rents	-	-	32,770	32,770
Other	-	3,532	91,268	94,800
Total Revenues	<u>5,950,764</u>	<u>4,572,159</u>	<u>1,965,985</u>	<u>12,488,908</u>
Expenditures:				
Construction/ capacity improvements	-	804,576	-	804,576
Preservation - structural Improvements	817,568	1,155,309	-	1,972,877
Maintenance	2,405,237	3,510,345	-	5,915,582
Other -				
Trunkline maintenance	-	-	1,699,518	1,699,518
Trunkline nonmaintenance	-	-	147,374	147,374
Administrative - net	286,200	485,782	-	771,982
Equipment - net	(5,559)	(6,993)	(6,783)	(19,335)
Capital outlay - net	-	-	(664,146)	(664,146)
Debt service	-	-	12,523	12,523
Total Expenditures	<u>3,503,446</u>	<u>5,949,019</u>	<u>1,188,486</u>	<u>10,640,951</u>
Revenues over (under) expenditures	2,447,318	(1,376,860)	777,499	1,847,957
Fund balance at beginning of year	-	-	1,062,868	1,062,868
Inter subaccount transfer	<u>(2,447,318)</u>	<u>1,376,860</u>	<u>1,070,458</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,910,825</u></u>	<u><u>\$ 2,910,825</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of County Road Commissioners
of Bay County
Kawkawlin, Michigan

We have audited the financial statements of Bay County Road Commission as of and for the year ended December 31, 2007, and have issued our report thereon, dated May 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Bay County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bay County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bay County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Bay County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Bay County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Bay County Road Commission's internal control. We consider the deficiencies described as follows to be significant deficiencies in internal control over financial reporting:

Annual Financial Statement Preparation

The Road Commission prepares various financial information to assess operations and the financial condition of the Road Commission including the completion of the MDOT ACT 51 Report at year end. However, that information is not required to be a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

The Road Commission has individuals on staff to review and determine that the financial report is accurate, however, has not elected to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission, under Statement of Auditing Standards No. 112, is considered to have a significant control deficiency, since reporting errors or omissions could occur in the presentation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Road Commission would not be in a position to detect the errors or omissions.

The Road Commission has evaluated the cost verses the benefit of expanding internal controls over the preparation of the annual financial statements to include reporting in accordance with GAAP, and has determined that it is in the best interest of the Road Commission to outsource this responsibility to the external auditors. The Road Commission will continue to carefully review the draft financial statements and notes prior to approving and accepting responsibility for their content and preparation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Bay County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of the Bay County Road Commission in a separate letter dated May 23, 2008.

This report is intended for the information and use of the management and Board of County Road Commissioners of Bay County, Michigan and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

May 23, 2008



AUDIT COMMUNICATION LETTER

May 23, 2008

To the County Road Commissioners of
Bay County Road Commission
Kawkawlin, Michigan

We have audited the financial statements of the Road Commission of Bay County for the year ended December 31, 2007, and have issued our report thereon dated May 23, 2008. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated November 9, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Bay County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Bay County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to you in our Preliminary Audit Communication Letter, and discussions with management.

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Bay County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed in 2007. We noted no transactions entered into by the Bay County Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

As part of the implementation of GASB 34, the Road Commission was required to record infrastructure as a capital asset. As a result, the original costs of roads, bridges, traffic signals, land improvements and right-of-way had to be determined. Because the supporting data for original cost was not always available, estimates were required to be made based on available data. We evaluated the key factors and assumptions used to develop the cost estimates for infrastructure and determined that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation is based on Michigan Department of Transportation guidelines. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Adjustments Governmental Fund Financial Statements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no proposed audit adjustments. However, we did assist with closing entries, particularly with the recording of accrued claims liability for health insurance.

Assistance with GASB 34 Presentation

As a result of our assistance with GASB 34 presentation, we proposed several entries, to the December 31, 2007 account balances to reflect the difference between the Governmental Fund and the Government-wide financial statements. These entries are described in Note 2 to the financial statements.

Statement on Auditing Standards No. 112

Statement on Auditing Standards No. 112 "Communicating Internal Control Related Matters Identified in and Audit" implementation was first effective for your year end December 31, 2006. Under SAS 112 internal control over financial reporting includes the annual audited financial statements including the notes being presented in accordance with Generally Accepted Accounting Principles.

If a governmental organization relies on our firm to present the financial statements in accordance with generally accepted accounting principles, we are required to report that there is a significant deficiency in internal control. We, again, fulfilled this responsibility in your internal control letter for the year ended December 31, 2007.

A substantial portion of our clients are receiving this comment, and per discussion with other CPA firms, a substantial number of their clients are also receiving the comment. This is the result of it being the practice in the past to rely on the auditor since the annual financial report is prepared once a year and we stay current on generally accepted accounting principles. We recommend that the Road Commission evaluate the cost versus the benefit of expanding internal control over financial reporting to include presentation under GAAP.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 23, 2008.

Other Internal Control Comments

In addition to the Report on Internal Control, we noted a few other items that although are not considered significant deficiencies could improve controls, the operational efficiency and/or compliance with laws and regulations. These items are discussed in Attachment A.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant factors. To our knowledge, there were not such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Bay County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the information and use of management and Board of County Road Commissioners and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

Attachment A

The following items that we discussed with management are not considered significant deficiencies, however, are items that could improve controls, the operational efficiency of the accounting department and/or compliance with laws and regulations:

Controls over Transfer Vouchers

At the present time, transfer vouchers (journal entries) include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all transfer vouchers are required to be formally approved by a second individual.

Not having a procedure requiring that transfer vouchers be formally approved allows for the possibility of inaccurate financial reporting.

We recommend that the transfer vouchers be approved by an individual that is able to analyze the accompanying information supporting the entry. This may be accomplished by having different individuals reviewing transfer vouchers, or at a minimum, any transfers that are not standard entries.

Accrued Claim Liability

The Road Commission is self-insured for health care benefits with the administration services of the self-insured program administered by the health insurance company.

Entries to the general ledger are required to be made by the Road Commission to reflect accrued claims liability (including IBR) and to reflect the accrual insurance cost as an expenditure.

We recommend that the required adjustments be made periodically (possibly quarterly) to record the entries rather than waiting until year end. This procedure should assist in the analysis of the activity related to the self-insurance process.